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SIPDIS

DEFENSE FOR U/S WYNNE (ACQUISITIONS);
COMMERCE FOR BIS U/S JUSTER;
USDOC 4220/MAC/EUR/DDEFALCO;
STATE FOR PM DAS MAGGI AND FOR T;

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TAGS: [ETTC](#) [PARM](#) [PREL](#) [IT](#) [EXPORT](#) [CONTROLS](#)

SUBJECT: ITALIAN INDUSTRY MINISTRY HOPES TO EASE TECH
TRANSFER RULES AT JULY 22 TALKS; AIRS COMPLAINTS ABOUT
LOCKHEED-MARTIN

Classified By: Acting Deputy Chief of Mission Scott Kilner for reasons
1.5 (B) and (D).

¶1. (C) Summary: On July 8, Ministry of Productive Activities (MPA, i.e. Industry) U/S Mario Valducci met with ECMIN to discuss the possibility of easing U.S. export controls on technology to Italy, in the context of Italy's strong political support for the U.S., particularly during the recent Iraq war. Valducci also aired complaints about Lockheed-Martin. He noted that, during his June visit to Washington, he had made similar requests of DOD U/S Wynne, Commerce U/S Juster and State U/S Bolton. Valducci believed that he had been received with understanding in Washington and had established a political level dialogue that would lead to the transfer of more sophisticated technology to Italy. The planned July 22-23 visit of State DAS Turk Maggi to Rome, said Valducci, would permit more in-depth discussions and, he anticipated, significant progress toward greater/improved tech transfer. Valducci planned to present Maggi with a list of 22 technologies, which the Government of Italy would request be transferred in the near future. ECMIN explained the genesis of the Maggi delegation visit and stressed the limited focus on dual-use export controls. He also explained the complexities of the USG interagency process. Nevertheless, post believes that Valducci and perhaps others in the GOI have unreasonably high expectations for Maggi's visit and the July 22-23 talks. We would suggest planning for side discussions with Valducci on this issue, perhaps on July 21. End Summary.

¶2. (U) U/S Valducci (Ministry of Productive Activities) met with ECMIN and other Mission officers, including the Acting Chief of the Office of Defence Cooperation, on July 8. Valducci was joined by DG Goti, Deputy DG Cuzzoni, Dip Advisor Checchia, and Chief of Staff Raimondi. Valducci had requested the meeting to follow up on his meetings during his June visit to Washington.

¶3. (C) Valducci explained that Italy had long been an extremely close U.S. ally. During the recent Iraq war, the Berlusconi government had faced down political and public opposition in order to support the U.S. Italy's EU partners continually complained that Italy too often chose U.S. rather than EU weapons systems. The decision to pull out of the A400M program, as well as other pro-U.S. choices, has meant increasing pressure from France and other EU states. Yet the GOI felt it had not received credit for this from the USG. Italy saw itself left out of the top echelon of allies in terms of technology transfer. The French, Cuzzoni alleged, were given access to U.S. technologies denied to Italy. All Italy was asking, he said, was to be treated as well as America's other major European allies. At the moment, the French were beginning a major new program (NFI), and pressing the Italians to enter. Italy would prefer to work with the U.S., but found itself treated as an outsider.

¶4. (C) Valducci recounted that he had visited Washington in June, and met with U/S Wynne of DOD, U/S Juster of DOC and U/S Bolton of State. He had also met with Rep. Curt Weldon, House Appropriations Committee Chairman Young and Sen. Ted Stevens. These meetings had given Valducci an opportunity to explain Italy's need for increased technology transfer from the U.S. Valducci felt that he had been heard and understood, and that he had established a political dialogue that would result in an easing of export controls on technology transfer to Italy. He noted that U/S Bolton had mentioned legal restrictions, but Valducci believed that these could be resolved via a high level political agreement.

The next step, he argued, would be the visit of State DAS Turk Maggi to Rome on July 22-23 for bilateral discussions.

Valducci would participate in the MFA discussions and planned also to meet separately with Maggi to discuss the transfer of 22 specific technologies. A list would be provided to Maggi. (Note: Embassy requested a copy of the list at the meeting, but has not received it.)

¶5. (C) DG Goti asked whether DAS Maggi could personally approve the transfer of such technologies to Italy. ECMIN

responded that the system was far more complicated. While Maggi was a key person for the State Department, the export control process included several departments. Moreover, the U.S. did not have category A, B, or C allies, each of which

was approved access to broad categories of specified technologies. Rather, specific requests were treated on a case-by-case basis, depending on how the narrowly defined technology was to be used, whether it might be re-exported and many other criteria. The most successful strategy for Italy would be to take one specific case at a time and request approval through proper channels, rather than making a wholesale request.

¶16. (C) Goti responded that he was willing to explain to Maggi GOI intentions for all 22 technologies, and accept his limitations on the use and/or re-export of each. The important thing, stressed Goti, was to get all 22 technologies quickly -- not in three or four years, when it would be too late. (Comment: The MPA, on behalf of Italian industry, appears to be looking for a political level agreement that would significantly streamline procedures and shorten the time frame associated with individual tech transfers. End Comment.)

¶17. (C) ECMIN reiterated that a broad request was unlikely to be approved. He clarified for Valducci that the July 22-23 meetings at the MFA had been set up for a different -- albeit related -- purpose. The discussions had arisen out of concerns expressed by the USG regarding some sensitive exports to third countries, especially China. These discussions are an effort to establish a transparent and open dialogue between our two governments on how export controls are applied and how we can work together. If we can move toward a common understanding on how to deal with sensitive technologies, this would be an important first step toward closer defense-industrial cooperation.

¶18. (C) Valducci went on to explain that, in discussions with Rep. Weldon, a proposal had emerged for a two-day U.S./Italy aerospace workshop in Washington in the fall of 2003 or spring of 2004. All Italian defense companies would be represented, and it would allow Italy to show that -- aside from close political ties -- Italy cooperates closely with the U.S. in defense and industrial areas. ECMIN asked if this proposal had been discussed with any of the Executive Branch officials he had met. Valducci thought not. He believed, however, that Ambassador Vento had discussed it with U/S Bolton in recent days. Valducci added that the workshop had the support of the Italian defense and research ministers.

Lockheed Martin and JSF

¶19. (C) The other issue raised by Valducci during this meeting was his sense that Lockheed Martin had not met Italy's expectations as a partner in JSF or in earlier projects. While Boeing had been an excellent partner and met all its commitments, LM had continually disappointed the GOI. Valducci referred to the C27J program, arguing that LM had done nothing to sell the product, leaving Italy to do it all. Italy hoped to sell the C27Js to the Coast Guard deep water program or to the U.S. national guard, but nothing was concluded. LM was late on meeting its offset commitments for the C130J program. The offset was to be 50 percent over 14 years, but LM had only complied with 33 percent to date.

¶10. (C) Italy was committed to JSF, stressed Valducci. As a level two partner, the GOI was putting one billion dollars into the program, and saw itself as a real partner in this effort. However, LM didn't seem to have the same view. LM, he charged, did not seem at all interested in using Italian industry in the JSF program, despite early promises. While countries such as Canada, that would not even commit to buying JSF, had reportedly earned a 67 percent return on investment, and the Netherlands had reportedly gotten 45-50 percent return, Italy had seen no more than a 24 percent return. Of course, noted Valducci, these figures were press reports, because LM does not provide any information to the Ministry of Productive Activities. (Note: LM deals only with the Ministry of Defense on JSF, at the insistence of the National Armaments Director Adm. Di Paola.)

¶11. (C) Valducci and Cuzzoni both emphasized that Italy was coming close to another key decision point on JSF participation (not further identified), and that LM's disappointing performance might be a factor in this decision.

While Adm. Di Paola had, according to Goti, persuaded LM to promise some additional contracts would be given to Italian firms, no results had yet been seen. Goti added that "We want to continue with JSF and with the United States. Help us to help you." He asked that the USG press LM to treat Italian firms more fairly.

Comment:

¶12. (C) We have found that GOI officials in other Italain ministries (MFA, MOD and MOI, as well as some in the MPA) have a more realistic understanding of U.S. tech transfer/export control processes than that expressed by Valducci. Despite our efforts to dampen expectations, Valducci (perhaps under the influence of para-statal Finmeccanica -- septel) appears to maintain unrealistic views regarding the Maggi visit and the July 22-23 discussions. We recommend that DAS Maggi consider separate meetings at the MPA.

¶14. (C) On the JSF/Lockheed issue, the MPA will have a major voice in any new funding decisions for JSF, as does Adm. Di Paola. The JSF program decision to give certain sole source contracts to strategic partners, including Italy, may be a first step in meeting the GOI's concerns. However, the total lack of contact between LM and the MPA on JSF has caused a shaky relationship to deteriorate further. The Embassy will work to provide reliable and complete information on the JSF program to MPA officials as they evaluate their next steps.

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